SECURITY MUTUAL LIFE

The Advantage of Starting Early

The Gen Z and millennial generations have grown tired of hearing from the baby boomers. The "Okay, boomer!" response to those graying sixty-something (and some seventy-something) parents and grandparents hearkening back to the "good ol' days" has been delivered in a loud and clear way. (Loud and clear to all except maybe those boomers whose hearing has begun declining—a possible consequence of their exposure to loud rock and roll music?) One piece of advice eschewed by the millennials and Gen Z until recently may finally be gaining some acceptance. That advice relates to building personal savings. "Start now. The sooner you start, the better off you'll be."

Now the boomers really cannot take all of the credit for the increased savings levels. Maybe they shouldn't take any. Savings levels increased dramatically during the COVID-19 pandemic. The U.S. Bureau of Economic Analysis reported the personal savings rate increased to 16.6 percent in 2020 up substantially over the prior year's level of 7.6 percent.[1] Also, a new survey from Discover[2] reports 60 percent of Americans say the pandemic made them realize just how little savings they have. And 71 percent say the pandemic made them want to increase their savings.

Discover reports over half the Gen Z and millennials credit an increased awareness of the importance of budgeting and are spending less as a result of the pandemic. Many Gen Z and millennials have increased their saving levels, but there's room for improvement.

Start saving now. Saving money may seem like a low priority for some young adult's but failing to do so could be tragic. When it comes to savings, starting as early as possible is the most important thing you can do. If you delay, you may never catch up.

The lesson is not just for Gen Z and millennials but for their parents and grandparents as well. Annual gifts at a young age, invested properly, can pay enormous dividends later in life. Sadly, the decision not to save early, or not to save enough, cannot be reversed later on. The missed opportunity will never reappear. You just have to be able to see it when it's there. Remember, the sooner you start, the better off you'll be.

The math is startling.

Here's a simple example:

Assume we have two young working professionals both age 25. Both have looked at the possibility of saving money and putting it into a Roth IRA. Investor A—call him George—is very aggressive in saving his money as soon as he starts. Investor B—call her Martha—would rather travel now and just save more later. She figures she'll make up the difference when she starts making a little more money.

So George starts at age 25 and contributes $5,000 per year until age 34, then stops. Martha waits until age 35 to start. She then puts in $5,000 every year and doesn't stop. She keeps going for the next 31 years, the last contribution occurring at age 65.

Assume the accounts both make 7 percent per year. So at age 65, who has more money? George put in $5,000 per year over 10 years for a total of $50,000. Martha waited out the ten years, then put in $5,000 per year for 31 years, for a total of $155,000—more than three times as much.

Believe it or not, at age 65, George has more money. The reason is the simple beauty of compound interest. After 10 years, George gets a head start of $64,082, and never looks back. By age 65, his account has a total value of $602,070, while Martha has $589,657.

Let's dig into the math:

Of course, we're assuming it's a Roth IRA, so after-tax dollars need to be used. If you use a traditional IRA, taxes are going to be a factor when the money comes out of the account. And the assumed interest rate plays a key role. The higher the rate, the better off George will be relative to Martha.

Summary: Starting Early

Age	Contribution	Starting Balance	Plus Interest	Ending Balance
25	$5,000	$5,000	$350	$5,350
26	5,000	10,350	725	11,075
27	5,000	16,075	1,125	17,200
28	5,000	22,200	1,554	23,754
29	5,000	28,754	2,013	30,766
30	5,000	35,766	2,504	38,270
31	5,000	43,270	3,029	46,299
32	5,000	51,299	3,591	54,890
33	5,000	59,890	4,192	64,082
34	5,000	69,082	4,836	73,918
35	0	73,918	5,174	79,092
36	0	79,092	5,536	84,629
37	0	84,629	5,924	90,553
38	0	90,553	6,339	96,891
39	0	96,891	6,782	103,674
40	0	103,674	7,257	110,931
41	0	110,931	7,765	118,696
42	0	118,696	8,309	127,005
43	0	127,005	8,890	135,895
60	$0	$401,185	$28,083	$429,268
61	0	429,268	30,049	459,317
62	0	459,317	32,152	491,469
63	0	491,469	34,403	525,872
64	0	525,872	36,811	562,683
65	$0	$562,683	$39,388	**$602,070**

Summary: Delay 10 Years

Age	Contribution	Starting Balance	Plus Interest	Ending Balance
25	$0	$0	$0	$0
26	0	0	0	0
27	0	0	0	0
28	0	0	0	0
29	0	0	0	0
30	0	0	0	0
31	0	0	0	0
32	0	0	0	0
33	0	0	0	0
34	0	0	0	0
35	5,000	5,000	350	5,350
36	5,000	10,350	725	11,075
37	5,000	16,075	1,125	17,200
38	5,000	22,200	1,554	23,754
39	5,000	28,754	2,013	30,766
40	5,000	35,766	2,504	38,270
41	5,000	43,270	3,029	46,299
42	5,000	51,299	3,591	54,890
43	5,000	59,890	4,192	64,082
60	$5,000	$343,382	$24,037	$367,419
61	5,000	372,419	26,069	398,488
62	5,000	403,488	28,244	431,733
63	5,000	436,733	30,571	467,304
64	5,000	472,304	33,061	505,365
65	$5,000	$510,365	$35,726	**$546,091**

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[1] Bureau of Economic Analysis. "Personal Income and Outlays, June 2021 and Annual Update." bea.gov. July 30, 2021. https://www.bea.gov/news/2021/personal-income-and-outlays-june-2021-and-annual-update (accessed August 21, 2021).

[2] Discover. "60% Of Americans Say the Pandemic Has Made Them Realize How Little They Have Saved." [press release] July 28, 2021. Retrieved from https://www.businesswire.com/news/home/20210728005081/en/ (accessed August 21, 2021).